CAP-XX

07

ANNUAL REPORT 2007

CAP-XX supercapacitors – power handheld computers in many commercial and industrial applications: driving wireless communication; bar-code scanners; and thermal printers. Longer run times - extended temperature capability - protection against power interruptions.

CAP-XX Limited is a world leader in the design and manufacture of revolutionary thin-form capacitors predominately for use in small portable electronic devices.

Supercapacitors can considerably extend battery run-times and provide power-hungry applications that are not possible with current battery technology.

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CORPORATE DIRECTORY

Directors	Michael Quinn Chairman
	Anthony Kongats Chief Executive Officer
	Graham Titcombe
	John Murray
	Christer Harkonen
	Brett Sandercock (Appointed 8 May 2007)
Secretaries	Robert Buckingham
	Chris Campbell (Resigned 31 May 2007) Chief Financial Officer
Notice of annual general meeting	The annual general meeting of CAP-XX Limited will be held at the offices of:
	Faegre & Benson LLP 7 Pilgrim Street London EC4V 6LB United Kingdom
	time: 9.30am
	date: 12 November 2007
	A formal notice of meeting is enclosed.
Registered office	Level 3 685 Pittwater Road Dee Why NSW 2099 Australia
Principal place of business	Units 9 and 10 12 Mars Road Lane Cove NSW 2066 Australia
Registrars to shares	Computershare Investor Services Pty Ltd Yarra Falls 452 Johnston Street Abbotsford Victoria 3067 Australia
Registrars to depositary interests	Computershare Investor Services plc The Pavilions Bridgwater Road Bristol BS99 7NH United Kingdom

CORPORATE DIRECTORY *continued*

Nominated adviser and broker to the Company	Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7 QR United Kingdom
Auditor	PricewaterhouseCoopers 201 Sussex Street Sydney NSW 1171 Australia
Solicitors to the Company as to Australian law	Dibbs Abbot Stillman Level 9, Angel Place 123 Pitt Street Sydney NSW 2000 Australia
Solicitors to the Company as to English law	Faegre & Benson LLP 7 Pilgrim Street London EC4V 6LB United Kingdom
Bankers	Commonwealth Bank of Australia 120 Pitt Street Sydney NSW 2000 Australia
Stock exchange listings	Shares are listed as Depositary Interests on AIM, a market regulated by London Stock Exchange plc, under the code CPX
Website address	www.cap-xx.com

CHAIRMAN'S STATEMENT

The Company made good progress during the year towards its major objectives of obtaining a large-scale design commission from a mobile phone handset manufacturer and arranging a manufacturing agreement with a world scale electronics component manufacturer. At the time of the IPO, we were of the view that one or other of these would occur from the middle of 2007.

The Company focused on these major objectives during the year and we are satisfied with progress towards developing credibility and relationships that we expect will result in successful outcomes during the course of the 2008 financial year. We have also actively engaged with the various suppliers and integrated circuit design houses that support the major handset manufacturers globally. These customers are expanding the array of solutions on offer using our supercapacitor as a core technology feature.

Progress on other aspects of the business has been very satisfactory.

I am pleased to report we have maintained solid growth across our current markets with product shipments well up on last year. We shipped 1.4 million units in 2007, compared with 0.6 million units in 2006. Revenue at AUD$5.0 million for the 12 months to 30 June 2007 is nearly double the 2006 result of AUD$2.6 million. As expected, with a greater proportion of sales going through the enlarged distributor network and with larger size orders now being achieved, average selling prices trended down slightly as customers availed themselves of the volume discounts. As a supplier to the global electronics markets we price our products in US dollars and adverse exchange rate movements trimmed reported revenues by 6%.

Our success in penetrating European markets is reflected in the sales growth for the year. Sales into the established North American and Asian markets have also grown significantly.

Our overall result for the twelve months to 30 June 2007 was a loss of AUD $9.0 million (2006 loss of AUD $10.3 million). The operating loss from trading operations was AUD $9.9 million (2006 loss AUD $9.7 million) with negative EBITDA of AUD $9.2 million (2006 negative AUD $6.0 million).

We have made significant investments in people, and addressing infrastructure and processes to ensure the creation of long-term shareholder value. During the year we focused on developing the production process engineering requirements to reach large-scale volume production suitable for rapid deployment to manufacturing partners. As I foreshadowed in my previous report, we also invested extensively in research and development, and production to attain the exacting quality levels required by mobile phone markets. We have improved production yield rates considerably at our contract manufacturing site and further progress is expected in this area.

As CAP-XX is highly dependent on its intellectual property to generate future returns, we will increase expenditure on research and development to further strengthen our competitive position.

We bolstered the Company's sales and marketing capability with particular emphasis on mobile phone markets. The appointment of UK based business development staff in our new offices outside London will further facilitate the immediacy and quality of service to the major mobile phone manufacturers. As is usually the case with early stage companies, sales and marketing spend will remain high relative to revenues for this financial year as CAP-XX establishes and expands its customer base. We will continue to service the growing base of non-mobile markets of our existing direct customers as well as through our distributor network.

The Company has commenced the new financial year with a firm order book from existing customers, and we continue to see a good flow of new prospects and opportunities across all our target markets covering wireless, consumer and commercial applications.

CAP-XX is well placed to benefit substantially from the increasing energy management demands of portable electronic devices and we look forward to a year of good progress. We continue to focus our efforts towards a mobile phone handset design win and a manufacturing agreement with an international electronics manufacturer.

Michael Quinn

Chairman

28 September 2007

BUSINESS REVIEW

About CAP-XX Limited

CAP-XX Limited is a world leader in the design and manufacture of revolutionary thin-form supercapacitors predominately for use in small portable electronic devices. Supercapacitors can considerably extend battery run-times and supports power-hungry applications that are not possible with current battery technology.

CAP-XX supercapacitors have a compact, thin-form design and store higher volumes of energy and output higher power levels than competing supercapacitor products. These attributes are critical for current and future generation electronic devices, such as mobile phone cameras with a quality flash photography capability and high quality audio capabilities. Other potential applications include mobile phone power management, mobile phone accessories, digital still cameras, MP3 players, portable drug delivery systems, wireless sensors, uninterrupted power supplies, toll tags and location tracking devices. The Company believes fuel cells will have a part to play in the solution to battery limitations and that the provision of peak load power management systems for fuel cells offers a significant opportunity to CAP-XX.

Portable devices are a fast-growing segment of the electronics market. In 2006, well over a billion mobile phones were sold. In addition, several hundred million notebook computers, toys, digital cameras and MP3 players were also sold. Many of these devices could benefit from supercapacitors.

In 2006-2007, CAP-XX supplied supercapacitors to a number of blue chip consumer electronics companies for use in current generation wireless devices such as ruggedised PDAs and PCMCIA cards. CAP-XX is now focusing on the camera phone market and is in discussions with leading mobile phone manufacturers.

CAP-XX is incorporated in Australia, employing 50 staff. Its headquarters, research and development and manufacturing facilities are located in Sydney, Australia. These facilities have ISO 9000 status. Under a manufacturing agreement with CAP-XX, Polar Twin Advance Sdn Bhd (PTA) operates a similar but larger manufacturing facility in Malaysia.

Historical Milestones

In 1994, a company associated with Anthony Kongats, now Chief Executive Officer of CAP-XX Limited, entered into an agreement with CSIRO (the Australian Commonwealth Scientific and Industrial Research Organisation) to research and commercialise supercapacitor technology that had resulted from CSIRO research.

CAP-XX Limited (formerly known as Energy Storage Systems Pty Limited) was established in 1996 by Anthony Kongats as the vehicle to hold the intellectual property resulting from the partnership with CSIRO. CAP-XX received research and development grants from the Australian Government and was backed by some of the world's leading technology investors, including Intel, Acer, ABN Amro and Walden. It was also well supported by Australian based venture capitalists Innovation Capital and Technology Venture Partners.

The Company built a pilot production plant in 1999 in Sydney, Australia, and progressively improved production capacity. It began shipping supercapacitor products to customers in 2003. Customers supplied to date include Sony, Sony Ericsson, IP Wireless, Option, Sierra Wireless and Flextronics. Product shipped to Motorola, Intermec and Hand Held Products has been incorporated in field-critical devices used by leading parcel delivery companies such as FedEx and UPS.

In late 2004, the company entered into a manufacturing agreement with Polar Twin Advance Sdn Bhd (PTA) to provide high volume manufacturing services. The production flow process developed in Sydney has been successfully replicated in Malaysia and PTA has consistently improved their operational efficiencies and volume of production.

CAP-XX was named a 2005 Technology Pioneer by the World Economic Forum in developing and applying innovative and transformational technology.

In February 2006, the CAP-XX technology was recognised by Frost & Sullivan's 2005 Technology Innovation of the Year Award as a 'breakthrough nanotechnology process for producing supercapacitors to meet the pulse-power requirements of portable devices'. The Award recognises research expected to make significant contributions to the electronics industry.

CAP-XX thin-form supercapacitors promise to place their stamp on the mobile electronic devices market.

BUSINESS REVIEW *continued*

Review of Operations and Activities

The Company has continued to grow its revenue each year since its first shipments in 2003, with revenue for the twelve months to 30 June 2007 increasing by 105% to US$4.0 million (AUD$5.0 million) compared to US$1.9 million in 2006 (AUD$2.6 million). Unit sales of 1.4 million were 118% up on 2006. The overall result for the twelve months to 30 June 2007 was a loss of AUD $9.0 million (2006 loss of AUD $10.3 million).

In January 2006 the company status was changed from a proprietary company limited by shares to a public company limited by shares. On 5 April 2006 the Company was demerged from its former parent CAP-XX Inc, a company incorporated in the USA, and the name was changed from Energy Storage Systems Limited to CAP-XX Limited.

On 20 April 2006, CAP-XX Limited was listed on the AIM market of the London Stock Exchange in conjunction with a placement of 18,433,333 shares at 93 pence per share, which raised gross proceeds of AUD$41million (£17.1 million) and increased the total shareholding to 48,565,893 shares and market capitalisation (at 93p per share) to about AUD$108 million (£45.2 million). Our shareholding was 48,926,559 at 30 June 2007 as various Employee Shareholder Option Plan participants exercised their options.

Business Environment

Portable devices is one of the fastest growing segments of the electronics market and provides the greatest opportunities for CAP-XX products.

CAP-XX technology provides a competitive advantage over other supercapacitor manufacturers, which include AVX, Maxwell Technologies and NEC/Tokin Corporation. Other manufacturers are unable to match the CAP-XX technology for thinness, energy density and power density. Many competitors manufacture higher-capacity, large package devices and focus on applications where the combination of thinness, energy density and power density is not an issue.

CAP-XX thin-form supercapacitors deliver superior energy density with very low resistance compared to bulky alternatives.

CAP-XX products are already an established technology for current generation wireless devices, such as ruggedised PDAs and PCMCIA cards.

Opportunities

The rapidly growing camera phone market is an area of opportunity as mobile handset providers seek to provide increasingly power hungry applications, such as quality camera flash photography. At present there is a widening gap between the power these applications require and the power current battery technology can provide. There is also a strong move towards improving the sound quality of the music played through the mobile phones and our supercapacitors can provide a vital link in achieving this goal.

CAP-XX is ideally placed to provide an immediate solution to the issue of power in mobile devices and is in discussions with leading mobile phone handset manufacturers for the commercial deployment of its technology for camera-phone flash applications. This includes interactions with international integrated circuit (IC) companies that are developing new chips to work with supercapacitor products to provide the power required. These companies are increasingly offering attractive solutions to their markets using our supercapacitors. Trials of their products are underway with selected vendors. Discussions with the mobile phone companies are leading to additional opportunities in their accessories markets where our brite sound audio technology can provide significantly better quality sound to this market sector as a stand alone feature if not already incorporated into the phone itself.

Other potential applications include digital still cameras, MP3 players, portable drug delivery systems, wireless sensors, uninterrupted power supplies, toll tags and location tracking devices. The Company believes that fuel cells will also have a part to play in the solution to battery limitations and believes that this also offers another significant opportunity to CAP-XX.

Leading players in the mobile device industry are currently attempting to redesign the power architecture of their devices based on batteries with higher energy densities. The key aim with these batteries is to increase runtime but a side effect of this benefit will be a different voltage discharge curve, which the Company believes will require the inclusion of supercapacitors for smoothing the discharge from peak power.

CAP-XX has identified possible resistance by applications designers and engineers to accepting a new technology to be a potential barrier to entry to new markets and has placed a

BUSINESS REVIEW *continued*

strong focus on providing sample kits, and engineering and design support services to application developers to facilitate consideration and acceptance of CAP-XX products. Supplying to their accessories market adds an attractive dimension to their risk management strategies.

Strategies for Growth

The Company continues to have discussions aimed at securing business with a number of global original equipment manufacturers active in mobile phone and portable consumer electronics. We hold regular engineering meetings together with their integrated circuit board providers as well as strengthening our relationships across their organisations.

CAP-XX opened an office outside London where our mobile phone business development team are based. We also have an experienced technical sales team in the USA. Asia is covered from our Sydney office. We closed our Taiwan office in July 2007. Most sales to date have been achieved by direct sales. The Company plans to maintain direct sales contacts with key customers. To gain broader market coverage, the Company has entered into distribution agreements with a number of well-qualified distributors covering Asia (inclusive of Japan, Korea and China) and Europe. Sales growth from this distributor network is encouraging and their experience in selling our product is steadily improving.

CAP-XX undertakes selected marketing campaigns, attends trade shows and has a website, www.cap-xx.com. In addition, CAP-XX strongly supports electronic system designers by providing engineering and design services for selection and application of supercapacitors, evaluation sample kits for experimentation and development work, and application briefs and notes (including examples).

Research and Development

CAP-XX has a research facility at its headquarters in Sydney, Australia where a research and development team comprised of 11 engineers and scientists is continuing development work to maintain CAP-XX lead position in the engineering of electrode, separator and electrolyte material in supercapacitor devices. We have a close association with leading personnel across various research institutions. Our Scientific Advisory Board provides clear direction on the commercially relevant technologies our research and development programme should address.

The market in which the Company operates is competitive and is characterised by rapid technological change. The Company believes that it currently has a strong competitive position in all its target markets covering wireless, consumer and commercial applications with its capability to produce supercapacitors with a high energy density and power density in a small conveniently sized flat package. Furthermore, the CAP-XX devices are lightweight, work over a broad temperature range and have an operating lifetime measured in years.

The Company's success depends on its ability to protect its intellectual property and to prevent any infringements by it of others' intellectual property. CAP-XX has sought to protect its intellectual property and has considerable intellectual property embodied in patents covering the design, manufacture and use of its high performance supercapacitors. The CAP-XX patent portfolio currently consists of 18 patent families, 14 granted US patents, 14 US patent applications and corresponding international patents and applications. The patents cover supercapacitive devices, components for supercapacitors, techniques for manufacturing devices and applications of the devices in electronic circuits.

Outlook

The Company expects to continue strong revenue growth from its current business focused on smaller markets. The order book for the first quarter has grown substantially.

Future profitability and the long term success of the Company will depend on translating this initial success into large scale opportunities in markets such as mobile phone handsets for camera flash, and general power applications.

The Company made good progress during 2007 towards its objectives of a large-scale design commission from a mobile phone handset manufacturer and a manufacturing agreement with a world scale electronics component manufacturer. At the time of the IPO we were of the view that one or other of these may occur from the middle of 2007. We also actively engaged with the various suppliers and integrated circuit design houses that support the major handset manufacturers globally. These customers are expanding the array of solutions on offer using our supercapacitor as a core technology feature.

The Company will continue to focus on developing credibility and relationships with handset manufacturers and component manufacturers with the objective of a successful design win and a manufacturing agreement during the course of this financial year.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of CAP-XX Limited (the Company or CAP-XX) and the entities it controlled at the end of, or during, the year ended 30 June 2007.

Directors

The following persons were directors of CAP-XX Limited during the financial year and up to the date of this report:

Michael Quinn	Chairman
Anthony Kongats	Chief Executive Officer
John Murray	
Christer Harkonen	
Graham Titcombe	
Brett Sandercock	Appointed 8 May 2007

Principal activities

The Group's principal continuing activities during the financial year consisted of the development, manufacture and sale of supercapacitors. There have been no significant changes in the nature of the Group's activities.

Dividends

No dividends were paid, declared or recommended during the financial year or since 30 June 2007.

Review of operations

The Group experienced net losses of $8,991,000 during the year ended 30 June 2007 (2006: loss of $10,322,000). Information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 5 to 7 of this Annual Report.

Significant changes in the state of affairs

There were no significant changes in the Group's state of affairs during the financial year ended 30 June 2007.

Use of funds

Funds spent since the IPO have been spent in accordance with the Offer document dated 12 April 2006.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the Group's operations and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group holds an Environment Protection licence and is subject to standard waste management environmental regulations in respect of its research and manufacturing activities conducted at Sydney, Australia. The licence requires discharges to air and water to be below specified levels of contaminants, and solid wastes to be removed to an appropriate disposal facility. These requirements arise under the Clean Air Act 1961, Clean Waters Act 1970, Pollution Control Act 1970, Noise Control Act 1975 and Waste Minimisation & Management Act 1995.

During the year there were no breaches of the regulatory requirements.

DIRECTORS' REPORT *continued*

Information on directors

Michael Quinn

Chairman. Age 60

Experience and qualifications

Michael became a director on 12 November 1998. He is executive chairman of venture capital fund manager, Innovation Capital Associates Pty Ltd, and was previously co-founder of Memtec Ltd, the high technology filtration company, which was listed on the ASX, NASDAQ and then NYSE. Michael is also a director of QRxPharma Ltd, listed on the ASX, a director of ResMed Inc., which is listed on NYSE, and is on the board of two not-for-profit organisations. Prior to its acquisition, he was executive chairman of the listed company Phoenix Scientific Industries Ltd that manufactured and imported medical and scientific equipment. Michael has also held executive positions in the banking, transport and high-technology plastics industries and has been a director of numerous listed and unlisted companies. He has an MBA from Harvard.

Special responsibilities

Chairman of audit committee until 8 May 2007.
Replaced by Brett Sandercock.

Interests in shares and options

2,266,974 ordinary shares in CAP-XX Limited (including shares held by Innovation Capital Limited, Innovation Capital LLC and Kaylara Pty Limited).

133,864 options over ordinary shares in CAP-XX Limited (including options held by Innovation Capital Limited, Innovation Capital LLC and Kaylara Pty Limited).

Anthony Kongats

Chief Executive Officer. Age 49.

Experience and qualifications

Anthony founded the Company in 1997. Prior to CAP-XX, he was the managing director of a manufacturer of passive components before selling the business to a competitor. Anthony previously worked as a management consultant with McKinsey & Company and held various engineering positions in Australia and Europe. He has a Bachelor of Engineering (Honours) from the University of New South Wales, a Bachelor of Science from the University of Sydney and an MBA from the Australian Graduate School of Management.

Special responsibilities

Nil.

Interests in shares and options

5,032,151 ordinary shares in CAP-XX Limited (including shares held by Ducon Management Pty Limited and Management Matters Pty Limited).

273,336 options over ordinary shares in CAP-XX Limited.

Christer Harkonen

Non-executive Director. Age 51.

Experience and qualifications

Christer is Senior Vice President of UPM Raflatac, responsible for the Radio Frequency Identification Business. Before joining that company he held various management positions at Elcoteq, a global electronics manufacturing services company. During 2000-2004 he headed Elcoteq's largest business area, Terminal Products, and was responsible for strategic accounts. Christer has held various production, logistics and purchasing positions in the electronics industry since 1984 including with Nokia, ICL Personal Systems Oy and Espoo. He has a Master of Engineering.

Special responsibilities

Member of audit committee.
Member of remuneration committee.

Interests in shares and options

5,000 ordinary shares in CAP-XX Limited.

10,000 options over ordinary shares in CAP-XX Limited.

DIRECTORS' REPORT continued

John Murray

Non-executive director. Age 48.

Experience and qualifications

John became a director on 18 September 2000. He has 15 years' experience in providing venture capital to technology companies in the Asia Pacific region with Bank of America, Australian Technology Group and Technology Venture Partners Pty Limited. John was a co-founder of Technology Venture Partners Pty Limited, one of the leading VC firms in Australia. He has been chairman of the Australian Venture Capital Association; a member of the Austrade ICT Export Advisory Panel; and a member of the 2002 Cooperative Research Centre Expert Review Panel. John has been involved in financing and assisting the development of a number of Australian companies which have successfully commercialised technology. He has a Bachelor of Law (Honours) from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland.

Special responsibilities

Member of audit committee.

Member of remuneration committee.

Interests in shares and options

4,535,238 ordinary shares in CAP-XX Limited (including shares held by TVP No 2 Fund Nominees Pty Limited and TVP No 3 Fund Nominees Pty Limited).

13,501 options over ordinary shares in CAP-XX Limited (including options held by Technology Venture Partners Pty Limited).

Graham Titcombe

Non-executive director. Age 65.

Experience and qualifications

Graham worked for Johnson Matthey plc for 42 years retiring in 2002 as group managing director. He was a member of the Johnson Matthey board for 12 years and was responsible at various times for the Johnson Matthey group's precious metals, catalysts and ceramics divisions. He was also the Johnson Matthey board member responsible for technology. Graham's outside directorships have included Ballard Power Systems, The World Fuel Cell Council, Wagon plc and Infast Group plc. He was chairman of Infast before stepping down in July 2005. He is currently senior independent director on the board of PolyFuel Inc, which listed on AIM in June 2005, and also Talvivaara Limited, which listed on the London Stock Exchange in June 2007.

Special responsibilities

Chairman of remuneration committee.

Senior independent director.

Interests in shares and options

20,000 ordinary shares.

Brett Sandercock

Non-executive director. Age 40.

Experience and qualifications

Brett Sandercock joined ResMed in 1998 and has held various senior finance positions in the company most recently as Chief Financial Officer. Brett's current role encompasses overall responsibility for group financial reporting, SOX 404 compliance, group treasury and foreign exchange hedging strategies.

Prior to joining ResMed, Brett commenced worked at Price Waterhouse in 1989 and was appointed Audit Manager in 1994 specialising in audits of clients predominantly focused on distribution and manufacturing companies, financial services and technology companies. He then took a position as Group Management Accountant with Health Care of Australia (formerly a division of Mayne Group, one of the largest private hospital operators in Australia). In 1996 Brett joined Norton Abrasives (a division of the French multi-national Saint Gobain) as Manager, Financial Accounting and Group Reporting Manager.

Brett Sandercock holds a Bachelor of Economics from Macquarie University and is an Australian Chartered Accountant.

Special responsibilities

Appointed chairman of audit committee on 8 May 2007

Interests in shares and options

Nil.

Company Secretary

The company secretary is Robert Buckingham.

Robert is managing partner of Allan Hall Partnership, Chartered Accountants, a position he has held since 1989. He has a Bachelor of Commerce (Honours) from the University of New South Wales and is a member of the Institute of Chartered Accountants in Australia and an associate member of Certified Practising Accountants in Australia.

Chris Campbell, Chief Financial Officer and company secretary, resigned on 31 May 2007.

DIRECTORS' REPORT *continued*

Meetings of Directors

The number of meetings of the Company's board of directors and of each board committee held, during the year ended 30 June 2007, and the number of meetings attended by each director were:

	Full meetings of directors		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Michael Quinn	6	6	3	3		
Anthony Kongats	6	6				
John Murray	6	6	3	3	3	3
Christer Harkonen	5	6	2	3	3	3
Graham Titcombe	6	6			3	3
Brett Sandercock (appointed 8 May 2007)	1	1				

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

Directors' remuneration

Details of the remuneration of each director of CAP-XX Limited, for the year ended 30 June 2007, are set out in the following table. The cash bonuses are dependent on the satisfaction of performance conditions. All other elements of remuneration are not directly related to performance.

Directors of CAP-XX Limited

2007	Primary			Post-employment		Equity	
Name	Cash salary and accrued fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
Executive directors							
Anthony Kongats	288,990	-	-	26,009	-	49,327	364,326
Non-executive directors							
Michael Quinn	98,796	-	-	-	-	3,991	102,787
John Murray	74,104	-	-	-	-	813	74,917
Christer Harkonen	74,104	-	-	-	-	705	74,809
Graham Titcombe	98,134	-	-	-	-	-	98,134
Brett Sandercock	11,893	-	-	1,125	-	-	13,018
Total	646,021	-	-	27,134	-	54,836	727,991

DIRECTORS' REPORT continued

Details of the remuneration of each director of CAP-XX Limited, for the year ended 30 June 2006, are set out in the following table. The cash bonuses are dependent on the satisfaction of performance conditions. All other elements of remuneration are not directly related to performance.

Directors of CAP-XX Limited

2006	Primary			Post-employment		Equity	
Name	Cash salary and accrued fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
Executive directors							
Anthony Kongats	199,196	-	-	16,710		3,714	219,620
Non-executive directors							
Michael Quinn	15,219	-	-	1,369	-	3,419	20,007
John Murray	11,414	-	-	1,027	-	-	12,441
Christer Harkonen	12,441	-	-	-	-	-	12,441
Graham Titcombe	15,839	-	-	-	-	-	15,839
Andrew Bailey	-	-	-	-	-	4,302	4,302
Total	254,109	-	-	19,106	-	11,435	284,650

Loans to directors and executives

The Group has no loans to directors and/or executives.

Share options granted to directors and the most highly remunerated officers

Options over unissued ordinary shares of CAP-XX Limited granted during the financial year to any of the directors or the five most highly remunerated officers of the Company and Group as part of their remuneration were as follows:

Directors	Date Granted	Options Granted
Anthony Kongats	19 September 2006	150,000
Christer Harkonen	8 May 2007	10,000
John Murray	8 May 2007	10,000
Michael Quinn	8 May 2007	10,000
Other executives of CAP-XX Limited		
Peter Buckle	19 September 2006	150,000
Chris Campbell	19 September 2006	150,000
George Karhan	19 September 2006	150,000
Paul Khoo	19 September 2006	100,000
Pierre Mars	19 September 2006	150,000

The options were granted under the terms and conditions of the 2006 Employee Share Option Plan.

No options over unissued ordinary shares of CAP-XX Limited have been granted since the end of the financial year to any of the directors or the five most highly remunerated officers of the Company and Group as part of their remuneration.

DIRECTORS' REPORT *continued*

Shares under option

Unissued ordinary shares of CAP-XX Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of Shares	Number under option
28 August 2001	31 May 2008	$2.96	28,497
28 August 2001	29 January 2009	$11.84	13,500
28 August 2001	10 October 2009	$8.88	510
1 November 2002	30 September 2012	$15.64	44,502
1 April 2004	31 May 2008	$2.96	9,999
1 April 2004	29 January 2009	$11.84	1,509
1 April 2004	30 September 2012	$4.19	4,500
1 April 2004	30 September 2012	$15.64	14,502
30 June 2004	31 May 2014	$0.47	30,000
26 August 2004	25 July 2014	$0.23	48,000
21 March 2005	20 February 2015	$0.23	48,000
1 July 2005	31 May 2015	$0.47	1,075,111
1 July 2005	31 May 2015	$15.64	17,508
20 April 2006	20 April 2009	£0.93	503,350
20 April 2006	22 February 2011	$1.40	60,000
19 September 2006	19 September 2016	$2.38	1,532,500
15 November 2006	15 November 2016	$1.73	75,000
8 May 2007	8 May 2017	$2.58	30,000
4 June 2007	4 June 2017	£1.09	150,000
			3,686,988

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

Shares issued on the exercise of options

The following ordinary shares of CAP-XX Limited were issued during the year ended 30 June 2007 on the exercise of options granted under the CAP-XX Employee Option Plan. A further 9,584 shares have been issued since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number under option
1 July 2005	$0.47	285,548

DIRECTORS' REPORT *continued*

Indemnification and Insurance of Officers

Indemnification

CAP-XX has agreed to indemnify the current directors and executive officers of the Group and former directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses. The company has also agreed to indemnify the former directors of CAP-XX, Inc. as part of the demerger process on similar terms as described above.

Insurance Premiums

The directors have not included details of the nature of the liabilities covered nor the amount of the premium paid in respect of the Directors' and Officers' liability insurance contracts, as such disclosure is prohibited under the terms of the contract.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 15.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Non-audit services

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided, during the year, are set out in Note 21 to the financial statements.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the directors.

Michael Quinn
Director

Sydney
28 September 2007

INDEPENDENCE DECLARATION

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of CAP-XX Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of CAP-XX Limited and the entities it controlled during the period.

RL Wilkie
Partner
PricewaterhouseCoopers

Sydney
28 September 2007

CORPORATE GOVERNANCE STATEMENT

Over the past year the Board has conducted the affairs of the Company in accordance with principles of good corporate governance.

Whilst companies whose shares are listed on AIM are not formally required to comply with the Combined Code on Corporate Governance (July 2003), the Board supports the Code and applies it in so far as is practicable and appropriate for a public company of its size. The Board is committed to ensuring that high standards of corporate governance are maintained.

There is a clear division of responsibility between the Chairman and the Chief Executive Officer. The Board comprises six directors, five of whom are non-executive directors and three of whom are independent non-executive directors. None of the non-executive directors have any day-to-day involvement in the running of the business.

The Board is responsible for overall strategy, the policy and decision making framework in which this strategy is implemented, approval of budgets, monitoring performance, and risk management.

The Board meets at regular scheduled intervals and follows a formal agenda. It also meets as and when required. During the year ended 30 June 2007, six Board meetings were held.

The directors may take independent professional advice at the Company's expense.

Board Committees

The Company has an audit committee and a remuneration committee both consisting of three non-executive directors. The terms of reference and composition of the audit and remuneration committees were determined as part of the process of the listing of the Company. During the year ended 30 June 2007, three audit committee and three remuneration committee meetings were held. Each committee is to meet at least twice a year.

The audit committee comprises Michael Quinn (Chairman), Christer Harkonen and John Murray. On 8 May 2007, Brett Sandercock was appointed as Chairman of the audit committeee, replacing Michael Quinn. The remuneration committee comprises Graham Titcombe (Chairman), Christer Harkonen and John Murray.

The audit committee reviews the financial statements of the Company and monitors the integrity of the financial statements. The audit committee also keeps under review the effectiveness of the Company's internal controls and risk management systems.

The remuneration committee determines, agrees and reviews with the Board the framework or broad policy for the remuneration of the Company's Chairman and executives and within the terms of the agreed policy (in consultation with the Chairman and/or Chief Executive Officer as appropriate) determines the total individual remuneration package of each senior executive. The remuneration committee also reviews and notes annually the remuneration trends across the Group.

Code of Conduct

The Company has a policy in place that complies with its obligations under Rule 21 of the AIM listing rules which provides that "the Company must ensure that its directors and applicable employees do not deal in any of its AIM securities during a closed period".

Relationships with Shareholders

The Board understands the need for clear communications with its shareholders. In addition to presentations after publication of results and the annual general meeting, meetings are held with fund managers, analysts, and institutional investors. Information is posted on the Company's web site, www.cap-xx.com.

Intellectual Property

The Board has always been vigilant in managing the Company's intellectual property ("IP") portfolio which currently consists of 18 patent families, 14 granted US patents, 14 US patent applications and corresponding international patents and applications. The Company's IP strategy has been to build company value by focussing on opportunities to capture market share and exclude competition with an IP portfolio capable of generating licensing revenue.

The directors believe comprehensive embodiments and interlocking patent groups, combined with a 'quick to file, quick to abandon' policy, have given the Company a strong and focussed IP portfolio.

FINANCIAL STATEMENTS *30 June 2007*

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This financial report covers both CAP-XX Limited as an individual entity and the consolidated entity consisting of

CAP-XX Limited and its subsidiaries. The financial report is presented in Australian currency.

CAP-XX Limited is a company limited by shares, incorporated and domiciled in Australia. Its principal place of business is:

Units 9-10
12 Mars Road
Lane Cove NSW 2066

Its registered office is:

Level 3
685 Pittwater Road
Dee Why NSW 2099

A description of the nature of the consolidated entity's operations and its principal activities is included in the Chairman's statement on page 4, business review on pages 5 to 7 and in the directors' report on pages 8 to 14, all of which are not part of this financial report.

The financial report was authorised for issue by the directors on 28 September 2007. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our Investors' Centre on our website: www.cap-xx.com.

Income statements

For the year ended 30 June 2007

		Consolidated		Parent Entity	
		2007	2006	2007	2006
Currency: Australian Dollars	**Notes**	**$ ' 000**	**$ ' 000**	**$ ' 000**	**$ ' 000**
Revenue from sale of goods	5	4,983	2,581	-	-
Cost of sale of goods	7	(5,162)	(6,751)	-	-
Gross margin (loss) on sale of goods		(179)	(4,170)	-	-
Other revenue	5	926	764	1,272	684
Other income	6	150	176	-	451
General and administrative expenses		(3,968)	(2,005)	(1,551)	(137)
Process and engineering expenses		(964)	(410)	-	-
Selling and marketing expenses		(1,650)	(1,217)	-	(3)
Research and development expenses		(2,840)	(1,904)	(4,354)	(5,431)
Finance costs	7	-	(911)	-	(594)
Other expenses	7	(466)	(645)	(6,067)	(9,931)
(Loss) before income tax		(8,991)	(10,322)	(10,700)	(14,961)
Income tax benefit / (expense)	8	-	-	-	-
Net (loss) for the year		(8,991)	(10,322)	(10,700)	(14,961)
(Loss) attributable to members of CAP-XX Limited		**(8,991)**	**(10,322)**	**(10,700)**	**(14,961)**
Earnings per share for (loss) attributable to the ordinary equity holders of the company		**Cents**	**Cents**		
Basic earnings per share	30	(18.5)	(31.1)		
Diluted earnings per share	30	(18.5)	(31.1)		

The above income statements should be read in conjunction with the accompanying notes.

Balance sheets

As at 30 June 2007

		Consolidated		Parent Entity	
		2007	2006	2007	2006
Currency: Australian Dollars	**Notes**	**$ ' 000**	**$ ' 000**	**$ ' 000**	**$ ' 000**
ASSETS					
Current assets					
Cash and cash equivalents	9	10,744	20,107	9,846	19,696
Receivables	10	958	850	39	-
Inventories	11	920	351	-	-
Other	12	94	126	5	43
Total current assets		12,716	21,434	9,890	19,739
Non-current assets					
Property, plant and equipment	13	2,779	1,678	-	-
Other	14	153	153	-	-
Total non-current assets		2,932	1,831	-	-
Total assets		**15,648**	**23,265**	**9,890**	**19,739**
LIABILITIES					
Current liabilities					
Payables	15	1,622	1,070	142	42
Provisions	16	507	449	-	-
Total current liabilities		2,129	1,519	142	42
Non-current liabilities					
Provisions	17	124	113	-	-
Total non-current liabilities		124	113	-	-
Total liabilities		**2,253**	**1,632**	**142**	**42**
Net assets		**13,395**	**21,633**	**9,748**	**19,697**
EQUITY					
Contributed equity	18	75,722	75,588	75,722	75,588
Reserves	19	1,033	414	1,033	416
Accumulated losses	19	(63,360)	(54,369)	(67,007)	(56,307)
TOTAL EQUITY		**13,395**	**21,633**	**9,748**	**19,697**

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity

For the year ended 30 June 2007

		Consolidated		Parent Entity	
		2007	2006	2007	2006
Currency: Australian Dollars	**Notes**	**$ ' 000**	**$ ' 000**	**$ ' 000**	**$ ' 000**
Total equity at the beginning of the financial year		21,633	(2,920)	19,697	(218)
Exchange differences on translation of foreign operations		2	(1)	-	-
Net income (loss) recognised directly in equity		2	(1)	-	-
(Loss) for the year		**(8,991)**	**(10,322)**	**(10,700)**	**(14,961)**
Total recognised income and expenses for the year		**(8,989)**	**(10,323)**	**(10,700)**	**(14,961)**
Transactions with equity holders in their capacity as equity holders:					
Employee share options	19	617	416	617	416
Exercise of options	18	134	35	134	35
Share buy-back	18	-	(2,630)	-	(2,630)
Contributions of equity, net of issuance costs	18	-	37,055	-	37,055
		751	34,876	751	34,876
Total equity at the end of the financial year		13,395	21,633	9,748	19,697

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statements

For the year ended 30 June 2007

		Consolidated		Parent Entity	
		2007	2006	2007	2006
Currency: Australian Dollars	**Notes**	**$ ' 000**	**$ ' 000**	**$ ' 000**	**$ ' 000**
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		4,974	1,996	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		(13,728)	(8,814)	(917)	(176)
		(8,754)	(6,818)	(917)	(176)
Grants received		150	150	-	-
Interest received		926	289	922	250
Net cash (outflow) inflow from operating activities	27	**(7,678)**	**(6,379)**	**5**	**74**
Cash flows from investing activities					
Payments for property, plant and equipment		(1,819)	(839)	-	-
Proceeds from sale of property, plant and equipment		-	53	-	-
Loans to related parties		-	-	(9,989)	(4,945)
Net cash (outflow) inflow from investing activities		**(1,819)**	**(786)**	**(9,989)**	**(4,945)**
Cash flows from financing activities					
Proceeds from issue of shares		134	41,056	134	41,056
Payments for issuance costs of shares		-	(3,606)	-	(3,606)
Proceeds from issue of convertible notes		-	3,783	-	3,783
Payments for issuance costs of convertible notes		-	(21)	-	(21)
Repayment of convertible notes including accrued interest		-	(16,671)	-	(16,671)
Loans from related parties		-	1,540	-	-
Net cash inflow from financing activities		**134**	**26,081**	**134**	**24,541**
Net increase (decrease) in cash and cash equivalents		(9,363)	18,916	(9,850)	19,670
Cash and cash equivalents at the beginning of the financial year		20,107	1,191	19,696	26
Cash and cash equivalents at the end of the financial year	9	**10,744**	**20,107**	**9,846**	**19,696**
Non-cash financing and investing activities	24				

The above cash flow statements should be read in conjunction with the accompanying notes.

Notes to the financial statements 30 June 2007

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Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for CAP-XX Limited an individual entity and the consolidated entity consisting of CAP-XX Limited and its subsidiaries.

All amounts shown are in Australian Dollars unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS) . Compliance with AIFRS ensures that the consolidated financial statements and notes comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 Financial Instruments: Presentation and Disclosure.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Continuation as a going concern

During the year ended 30 June 2007 the Consolidated Entity incurred an operating loss before tax and net cash outflows from financing activities as disclosed in the income statement and the cash flow statement respectively. The ability of the Consolidated Entity and the Company to continue as a going concern and to meet their debts and commitments as they fall due is dependent upon the following factors:

i) Significantly higher revenues being generated from existing and new customers or from technology licencing agreements. The Consolidated Entity's operating results are likely to continue to depend on a small number of customers, and in turn on those customers ability to sell their own products which incorporate the Consolidated Entity's products to end users.

ii) Continuity of timely production from internal and external manufacturing resources. The Consolidated Entity relies on third party manufacturers to produce most of its products. Dependency on third party manufacturers involves certain risks such as capacity shortages and an inability to renegotiate price decreases on volume production.

iii) Close and effective monitoring of the Consolidated Entity's cash flows, including the Consolidated Entity's ability to undertake appropriate cost saving initiatives if revenue and production volumes are not achieved.

iv) The ability of the Consolidated Entity to raise additional funds from its shareholders, new investors or from other funding sources to meet any operating expenses or where sales do not reach anticipated levels.

v) The market in which the Consolidated Entity operates is competitive and is characterised by technological change and innovation. Uncertainties surrounding the adoption and timing of new technology have been present since the company's inception and continue to exist in the Consolidated Entity's field of technology and potential markets.

As a result of these matters, there is significant uncertainty whether the company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

However, the directors believe that the company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2007.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CAP-XX Limited ("company" or "parent entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. CAP-XX Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(j)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements of the parent entity.

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is CAP-XX Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

When a foreign operation is sold, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

A sale is recorded when goods have been delivered to the customer.

Interest income is recognised on a time proportion basis using the effective interest method.

(g) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

(h) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

CAP-XX Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002.

The head entity, CAP-XX Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, CAP-XX Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Tax funding agreements are currently not in place. Amounts assumed are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(i) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 23). Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

(j) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

(k) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(n) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on a basis of first in first out. Previously the policy was on a weighted average cost. Finished Goods were valued on a net realisable value basis as at 30 June 2006. The change has an insignificant impact upon raw material inventory valuation as at 30 June 2006. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Raw materials held for development purposes are also stated at the lower of cost and net realisable value, hence are generally recognised in the income statement as an expense when received.

(o) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

(p) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Capital work in progress is not depreciated until the asset is installed ready for use.

Depreciation on assets is calculated using the straight-line method to allocate their cost amounts, net of their residual values over their estimate useful lives as follows:

Leasehold improvements	2-5 years
Furniture and fittings	2-10 years
Plant and equipment – Manufacturing	2-10 years
Plant and equipment – Research & Development	2-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(k)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(q) Intangibles

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit. The directors believe the Group has not incurred development expenditure that met the conditions for capitalisation.

Expenditure on patents are capitalised when technical feasibility is achieved. Otherwise, the expenditure is capitalised or expensed on a similar basis as for development activities.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 55 days of recognition.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects. The directors determined that there is no remainder of proceeds which could be allocated to the conversion option.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(t) Borrowing costs

Borrowing costs are currently expensed. The Company has decided not to early adopt AASB123 and will only apply when the standard comes into effect from January 2009 - see note (aa) (v). Under this standard, borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs will be expensed.

(u) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(v) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

The Group does not maintain a Group superannuation plan. The Group makes defined fixed percentage contributions for all Australian resident employees to complying third party superannuation funds. The Group's legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution complying third party superannuation funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share based payments

Share based compensation benefits are provided to employees via the 2006 Share Option Exchange Plan and the 2006 Employee Share Option Plan. Information relating to these schemes is set out in note 28.

Shares options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted from 7 November 2002 and vested from 1 January 2005

The fair value of options granted under the 2006 Share Option Exchange Plan and the 2006 Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the non tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non market vesting conditions (for example, profitability and sales growth targets). Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, eg as the result of a share buy back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(z) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(aa) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005 10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005 10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(ii) AASB-I 10 Interim Financial Reporting and Impairment

AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

(iii) AASB 8 Operating Segments

AASB 8 is applicable to reporting periods commencing on or after 1 January 2009. The Group has not adopted the standard early. Application of the standards is not expected to have a significant effect on the Group's financial statements.

(iv) Revised AASB 101 Presentation of Financial Statements

AASB 101 is applicable to reporting periods commencing on or after 1 July 2007. The Group has not adopted the standard early. Application of the standards is not expected to have a significant effect on the Group's financial statements.

(v) Revised AASB 123 Borrowing Costs

AASB 123 is applicable to reporting periods commencing on or after 1 January 2009. The Group has not adopted the standard early. Application of the standards is not expected to have a significant effect on the Group's financial statements.

(vi) AASB 2007-4 and 2007-7 Amendments to Australian Accounting Standards arising from ED151 and other Amendments

AASB 2007-4 and 2007-7 are applicable to reporting periods commencing on or after 1 July 2007. The Group has not adopted the standards early. Application of the standards is not expected to have a significant effect on the Group's financial statements.

Note 2 Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising particularly from currency exposures to the US dollar. The Group sells its products in US dollars, buys the majority of its raw materials and pays its contract tolling fees in US dollars. Its USA operations are financed out of the net proceeds. The unhedged positions were relatively small. Forward currency contracts are used to manage foreign exchange risk where the exposures are significant.

(ii) Price risk

The Group is not exposed to equity securities price risk nor to commodity price risk.

(iii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

The Group has some concentrations of credit risk. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group has no credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through the ability to close out market positions. The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2007 as the Group is transitioning from a development stage. Due to the negative cash flow position the Group has not committed to any credit facilities rather relied upon equity and debt financing through private and public equity investors.

(d) Cash flow and fair value interest rate risk

The Group's interest-rate risk mainly arises from interest bearing assets, with the Group's income and operating cash flows exposed to changes in market interest rates. The interest bearing assets have been predominantly deposited at short term fixed rates exposing the Group to cash flow interest-rate risk.

The Group's interest rate risk also arose from borrowings. These borrowings had been issued at fixed rates exposing the Group to fair value interest rate risk. As at 30 June 2007, the Group has no borrowings.

Note 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Apart from the going concern assumption as discussed in note 1(b), the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(b) Critical judgements in applying the entity's accounting policies

(i) Impairment loss and accelerated depreciation plant and equipment

The Group has continued to use the Sydney, Australia manufacturing site for the production of electrode material and selected supercapacitor product lines, whilst the larger volume supercapacitor product lines are outsourced. In assessing the carrying value of its plant and equipment, the Group considers previous impairment write downs remain adequate and the current depreciation rates fairly reflect the carrying value of such assets.

In the year to 30 June 2006, the Group recognised a one-off accelerated depreciation charge of $1,907,000. This was in addition to impairment losses of $1,737,000 and an accelerated depreciation charge of $1,942,000 recognised in the year to 30 June 2005, bringing the total to $5,586,000 over the two years.

In summary the Group incurred the following one-off charges:

	$ ' 000
Year ended 30 June 2007	-
	-
Year ended 30 June 2006	
Accelerated depreciation plant and equipment	1,907
Total one-off charges	1,907

Note 4 Segment information

(a) Description of segments

Business segments – primary reporting

The consolidated entity operates in a single business segment which is the development, manufacture and sale of supercapacitors.

Geographical segments – secondary reporting

Although the consolidated entity is managed on a global basis, it operates in 3 main geographical areas being Asia, North America and Europe.

Geographical segments can be summarised as follows:

	Segment revenues from sales to external customers		Segment assets	
	2007	2006	2007	2006
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Australia	-	-	13,945	22,235
Asia	2,735	1,017	1,058	400
North America	1,514	1,007	237	454
Europe	734	557	408	176
	4,983	**2,581**	**15,648**	**23,265**

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

(b) Notes to and forming part of the segment information

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard AASB 114 Segment Reporting. Segment revenues and assets are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories and property, plant and equipment, net of related provisions. Segment assets do not include income taxes.

(ii) Inter segment transfers

Segment revenues include transfers between segments. Such transfers are priced on an "arm's length" basis and are eliminated on consolidation and not disclosed in this note.

(iii) Acquisitions of property, plant and equipment, intangibles and other non-current segment assets

The acquisitions of non-current segment assets (refer to notes 13 and 14) relate to the Australian segment.

Note 5 Revenue

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Sales revenue				
Sale of goods	4,983	2,581	-	-
Other revenue				
Management and other fees	-	339	-	-
Licence fees	-	-	350	322
Interest	926	425	922	362
	926	764	1,272	684
Total revenue	**5,909**	**3,345**	**1,272**	**684**

Note 6 Other income

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Net gain on disposal of property, plant and equipment	-	26	-	-
Foreign exchange gains (net)	-	-	-	451
Government grants (note (a))	150	150	-	-
	150	**176**	**-**	**451**

(a) Government grants

An export market development grant of $150,000 (2006: $150,000) was recognised as other income by the Group during the year ended 30 June 2007. There are no unfulfilled conditions attaching to these grants.

The Group did not benefit directly from any other forms of government assistance.

Notes to the financial statements 30 June 2007 continued

Note 7 Expenses

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Loss before income tax includes the following specific expenses:				
Cost of sale of goods				
Direct materials and labour	3,498	2,008	-	-
Indirect manufacturing expenses	1,664	4,743	-	-
Total cost of sale of goods	**5,162**	**6,751**	**-**	**-**
Depreciation				
Plant and equipment	681	3,685	-	-
Furniture and fittings	4	4	-	-
Leasehold improvements	32	151	-	-
Total depreciation	**717**	**3,840**	**-**	**-**
Finance costs – net				
Convertible note issuance costs	-	21	-	21
Amortisation of convertible note issuance costs	-	39	-	39
Interest and finance charges payable	-	872	-	555
	-	932	-	615
Amount capitalised	-	(21)	-	(21)
Finance costs expensed	**-**	**911**	**-**	**594**
Other expenses				
Demerger costs	-	602	-	580
Foreign exchange losses (refer note 6 for net gains)	205	58	141	-
Engineering concept design fees	261	-	-	-
Provision for non recovery related parties loans / (write-back)	-	(401)	5,926	9,351
Impairment loss on goodwill	-	386	-	-
	466	**645**	**6,067**	**9,931**
Rental expense relating to operating leases				
Minimum lease payments	417	388	-	-
Employee benefits expense	4,326	3,828	-	-
Share based payments	617	56	617	56

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$ ' 000	$ ' 000	$ ' 000	$ ' 000

Note 8 Income tax expense

(a) Income tax expense

Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-

(b) Numerical reconciliation of income tax benefit to prima facie tax benefit

(Loss) before income tax benefit	(8,991)	(10,322)	(10,700)	(14,961)
Tax at the Australian tax rate of 30%	(2,697)	(3,097)	(3,210)	(4,488)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Goodwill impairment	-	116	-	-
Share based payments	185	17	185	17
Research & Development additional claims	(270)	-	-	-
Sundry items	18	11	-	-
	(2,764)	(2,953)	(3,025)	(4,471)
Adjustments for current tax of prior periods	(265)	-	(36)	-
Benefit arising from temporary differences not recognised	495	(91)	1,721	2,804
Benefit arising from tax losses not recognised	2,534	3,044	1,340	1,667
Income tax benefit	-	-	-	-

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	60,372	52,946	60,372	52,946
Potential tax benefit @ 30%	18,112	15,884	18,112	15,884

All unused tax losses were incurred by Australian entities. The deferred tax assets in relation to the tax losses will only be obtained if:

i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, and

ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and

iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

(d) Unrecognised temporary differences

Temporary difference for which no deferred tax asset has been recognised	2,449	798	29,709	23,971
Potential tax benefit @ 30%	735	239	8,913	7,191

(e) Tax consolidation legislation

CAP-XX Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(i). CAP-XX Limited has not recognised any tax consolidation distribution from or to wholly owned tax consolidated entities.

Notes to the financial statements 30 June 2007 continued

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$ ' 000	$ ' 000	$ ' 000	$ ' 000

Note 9 Current assets – Cash and cash equivalents

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Cash at bank and on hand	556	384	111	5
Cash on deposits	10,188	19,723	9,735	19,691
	10,744	20,107	9,846	19,696

(a) Cash at bank and on hand

These are bearing floating interest rates between 0% and 3% (2006: 0% and 3%).

(b) Deposits at call

The deposits are bearing floating interest rates between 3% and 6.25% (2006: 3% and 5.8%). These deposits have an average maturity of 30 to 60 days.

Note 10 Current assets – Receivables

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Trade receivables	895	886	-	-
Provision for doubtful receivables	(34)	(38)	-	-
	861	848	-	-
Amounts due from related parties	-	-	29,940	24,014
Provision for doubtful receivables	-	-	(29,940)	(24,014)
	-	-	-	-
Other receivables	97	2	39	-
	958	850	39	-

(a) Bad and doubtful trade receivables

During the year ended 30 June 2007, the Group has recognised a profit of $3,123 (2006: a loss of $21,000) in respect of bad and doubtful trade receivables. The profit has been included in "General and administrative expenses" in the income statement. The parent entity has recognised a loss of $5,926,000 (2006: $9,351,000) in respect of doubtful amounts due from related parties, during the year ended 30 June 2007. The loss has been included in "Other expenses" in the income statement.

(b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Collateral is not normally obtained.

(c) Interest rate and credit risk

The current receivables are non-interest bearing. Further information relating to amounts due from related parties is set out in note 24. There is some concentration of credit risk with respect to current receivables, as the Group has a limited number of customers, internationally dispersed. Refer to note 2 for more information on the risk management policy of the Group.

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$ ' 000	$ ' 000	$ ' 000	$ ' 000

Note 11 Current assets – Inventories

Raw materials and stores - at cost	426	206	-	-
Finished goods - at cost	429	-	-	-
Finished goods - at net realisable value	65	145	-	-
	494	145	-	-
	920	351	-	-

(a) Inventory expense

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2007 amounted to $134,000 (2006: $83,000). The expense for finished goods has been included in 'cost of sale of goods' in the income statement.

	Consolidated		Parent Entity	
	$ ' 000	$ ' 000	$ ' 000	$ ' 000

Note 12 Current assets – Other

Prepayments	94	126	5	43

Note 13 Non-current assets – Property, plant and equipment

	Consolidated 2007 $ ' 000	Consolidated 2006 $ ' 000	Parent Entity 2007 $ ' 000	Parent Entity 2006 $ ' 000
Plant and equipment at cost	13,010	12,515	-	-
Accumulated depreciation	(11,868)	(11,187)	-	-
Net book amount	1,142	1,328	-	-
Capital works in progress	1,606	283	-	-
Furniture and fittings at cost	64	64	-	-
Accumulated depreciation	(33)	(29)	-	-
Net book amount	31	35	-	-
Leasehold improvements at cost	437	437	-	-
Accumulated depreciation	(437)	(405)	-	-
Net book amount	-	32	-	-
Total property, plant and equipment	15,117	13,299	-	-
Total accumulated depreciation	(12,338)	(11,621)	-	-
Total net book amount	**2,779**	**1,678**	**-**	**-**

Movement in classes of assets: Consolidated	**Plant and equipment $ ' 000**	**Capital works in progress $ ' 000**	**Furniture and fittings $ ' 000**	**Leasehold improvements $ ' 000**	**Total $ ' 000**
Year ended 2007					
Opening net book amount	1,328	283	35	32	1,678
Additions	-	1,818	-	-	1,818
Transfers to plant and equipment	495	(495)	-	-	-
Disposals	-	-	-	-	-
Depreciation	(681)	-	(4)	(32)	(717)
Closing net book amount	1,142	1,606	31	-	2,779
Year ended 2006					
Opening net book amount	4,757	449	39	183	5,428
Additions	-	840	-	-	840
Transfers to plant and equipment	256	(256)	-	-	-
Disposals	-	(750)	-	-	(750)
Depreciation	(3,685)	-	(4)	(151)	(3,840)
Closing net book amount	1,328	283	35	32	1,678

Parent entity

There were no movements in property, plant and equipment in the parent entity.

Note 14 Non-current assets – Other

	Consolidated 2007 $ ' 000	Consolidated 2006 $ ' 000	Parent Entity 2007 $ ' 000	Parent Entity 2006 $ ' 000
Rental bond	153	153	-	-
Shares in subsidiaries (note 25)	-	-	-	-
Goodwill (note 25)	-	386	-	-
Impairment loss Goodwill (note 25)	-	(386)	-	-
	-	-	-	-
	153	**153**	**-**	**-**

Note 15 Current liabilities – Payables

	Consolidated 2007 $ ' 000	Consolidated 2006 $ ' 000	Parent Entity 2007 $ ' 000	Parent Entity 2006 $ ' 000
Trade payables	1,055	841	69	42
Other creditors and accrued expenses	567	229	73	-
	1,622	**1,070**	**142**	**42**

Note 16 Current liabilities – Provisions

	Consolidated 2007 $ ' 000	Consolidated 2006 $ ' 000	Parent Entity 2007 $ ' 000	Parent Entity 2006 $ ' 000
Employee benefits	450	287	-	-
Product returns and warranties	57	162	-	-
	507	**449**	**-**	**-**

(a) Product returns and warranties

Provision is made for estimated product returns and warranty claims in respect of products sold. The Group provides a one year warranty on products sold to customers. The Group has to date experienced minimal product returns and warranty claims.

(b) Movements in provisions

Movements in the product returns and warranties provision during the financial years are set out below:

	Consolidated 2007 $ ' 000	Consolidated 2006 $ ' 000	Parent Entity 2007 $ ' 000	Parent Entity 2006 $ ' 000
Carrying amount at start of year	162	105	-	-
Additional / (write-back) of provisions	(23)	57	-	-
Claims paid during year (includes compensation paid to contract manufacturer for rework)	(82)	-	-	-
Carrying amount at end of year	**57**	**162**	**-**	**-**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Note 17 Non-current liabilities – Provisions				
Employee benefits – long service leave	**124**	**113**	**-**	**-**

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	Shares	Shares	$ ' 000	$ ' 000

Note 18 Contributed equity

(a) Share capital

	2007 Shares	2006 Shares	2007 $ ' 000	2006 $ ' 000
Fully paid ordinary shares (no par value)	**48,926,559**	**48,641,011**	**75,722**	**75,588**

(b) Movement in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	$ ' 000
1 July 2005	Opening Balance		3,017,039		41,128
5 April 2006	Share buy-back	(e)	(932,761)	$2.82	(2,630)
5 April 2006	Share consolidation	(d)	(2,084,277)		
5 April 2006	Share issue	(f)	6,785,312		
20 April 2006	Conversion of Series A Preferred Stock	(f)	3,920,744		
20 April 2006	Conversion of Series B Preferred Stock	(f)	19,426,503		4
20 April 2006	Share issue through IPO	(g)	18,433,333	$2.23	41,017
27 June 2006	Exercise of stock options	(h)	75,118	$0.47	35
					79,554
	Less: Cost of 20 April 2006 share issue				(3,966)
30 June 2006	**Balance**		**48,641,011**		**75,588**
1 July 2006	Opening balance		48,641,011		75,588
20 July 2006	Exercise of stock options		14,437	$0.47	7
21 July 2006	Exercise of stock options		8,250	$0.47	4
22 September 2006	Exercise of stock options		14,726	$0.47	7
14 November 2006	Exercise of stock options		71,250	$0.47	34
17 May 2007	Exercise of stock options		20,125	$0.47	9
25 May 2007	Exercise of stock options		20,125	$0.47	9
1 June 2007	Exercise of stock options		35,880	$0.47	17
1 June 2007	Exercise of stock options		25,755	$0.47	12
14 June 2007	Exercise of stock options		75,000	$0.47	35
30 June 2007	**Balance**		**48,926,559**		**75,722**

Note 18 Contributed equity (continued)

(c) Ordinary shares

At 30 June 2007, there were 48,926,559 issued ordinary shares which were fully paid, with no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Share consolidation

On 5 April 2006, the company completed a consolidation of ordinary shares to reduce all outstanding ordinary shares to one ordinary share.

(e) Share buy-back

On 5 April 2006 the Company purchased and cancelled 932,761 ordinary shares off market in order to settle amounts due from related parties as described in note 24(f) for $2,630,000.

(f) Share issue, exercise of warrants and conversion of preferred shares

On 5 April 2006, the Company distributed ordinary shares and preferred shares to the existing stockholders of CAP-XX, Inc in such numbers to replicate in the Company the equity ownership structure of the stockholders in CAP-XX, Inc which was also inclusive of a 3:1 share split. Subsequently, as described in note 24(f) on 20 April, 2006 preferred shares issued by the company were converted to ordinary shares with A preferred shares converted on basis of 1:2.872397 and B preferred shares converted on basis of 1:3.828762. On 20 April 2006 the holders of Convertible Notes exercised all warrants outstanding at US$0.01 netting additional share capital of $4,000.

(g) Share issue through IPO

As described in note 24(f) the Company completed an initial public offering (an “IPO”) on the Alternative Investment Market (“AIM”), a part of the London Stock Exchange on 20 April 2006 whereon CAP-XX Limited issued 18,433,333 ordinary shares raising new capital of $37,051,000 (net of listing costs of $3,966,000). Included in the listing costs is $360,000 of share based payments, refer to note 28 for further details.

(h) Options

Information relating to the 2006 Share Option Exchange and 2006 Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 28.

Notes to the financial statements 30 June 2007 continued

Note 19 Reserves and accumulated losses

(a) Reserves

	Consolidated 2007 $ ' 000	Consolidated 2006 $ ' 000	Parent Entity 2007 $ ' 000	Parent Entity 2006 $ ' 000
Foreign currency translation reserve	-	(2)	-	-
Share-based payments reserve	1,033	416	1,033	416
	1,033	414	1,033	416
Movements:				
Foreign currency translation reserve				
Balance 1 July	(2)	(1)	-	-
Currency translation differences arising during the year	2	(1)	-	-
Balance 30 June	-	(2)	-	-
Share-based payments reserve				
Balance1 July	416	-	416	-
Option expense	617	416	617	416
Balance 30 June	1,033	416	1,033	416

(b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated 2007 $ ' 000	Consolidated 2006 $ ' 000	Parent Entity 2007 $ ' 000	Parent Entity 2006 $ ' 000
Balance 1 July	(54,369)	(44,047)	(56,307)	(41,346)
Net (loss) for the year	(8,991)	(10,322)	(10,700)	(14,961)
Balance 30 June	**(63,360)**	**(54,369)**	**(67,007)**	**(56,307)**

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(e). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Share based payments reserve

The share based payments reserve is used to recognise the fair value of options issued but not exercised.

Note 20 Key management personnel disclosures

(a) Directors

The names of the directors who have held office during the financial year are as follows:

Executive director

Anthony Kongats (Chief Executive Officer)

Non-executive directors

Michael Quinn (Chairman)

Christer Harkonen

John Murray

Brett Sandercock (appointed 8 May 2007)

Graham Titcombe

(b) Key management and personnel compensation

Key management personnel compensation is set out below. The key management personnel include all the directors of the company and those executives that report directly to the Cheif Executive Officer, including:

Vaclav George Karhan, Chief Operations Officer

Jean Pierre Mars, VP Applications Eng.

Chris Campbell, Chief Financial Officer

Stim Robinson, Chief Financial Officer

Thomas Boesen, VP Sales & Business Development

Peter Buckle, VP Sales & Marketing Asia

Warren King, Chief Technical Officer

	Consolidated		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Short-term benefits	1,534,655	474,078	357,031	54,913
Post-employment benefits	96,769	38,907	1,125	2,396
Share-based payments	258,318	21,176	5,509	7,721
Total	**1,889,742**	**534,161**	**363,665**	**65,030**

(c) Other transactions with key management personnel or entities related to them

There were no other transactions with key management personnel.

Note 21 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non related audit firms:

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
(a) Assurance services				
Audit services				
PricewaterhouseCoopers Australian firm				
Audit of financial report	117,750	77,500	117,750	77,500
Audit of financial reports of CAP-XX, Inc. for the purpose of the IPO	-	120,000	-	120,000
Audit of AIFRS opening balance sheets	-	20,000	-	20,000
Total remuneration for assurance services	**117,750**	**217,500**	**117,750**	**217,500**
(b) Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	83,232	54,527	-	-
International tax consulting and tax advice on demerger and company restructure	132,828	278,665	20,592	278,665
Related practices of PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	38,669	50,934	-	-
International consulting and tax advice on demerger and company restructure	19,460	98,106	-	98,106
Total remuneration for taxation services	**274,189**	**482,232**	**20,592**	**376,771**

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

Note 22 Contingencies

While no claims have been made as yet, the research and development start grants are subject to a limited discretionary right of the Australian government to "claw-back" a proportion of the funding on a sliding scale for up to five years from 30 March 2005. The directors believe however that the company has met all conditions attached to the grants.

A letter of comfort dated 5 April 2006 was provided by the Company to CAP-XX, Inc as part of the Demerger (refer note 24(f)). Pursuant to the letter of comfort, the Company undertakes to support the financial commitments of CAP-XX, Inc. The undertaking is limited for 12 months from the date of the letter and is capped at US$100,000. The undertaking was extended for a further 12 months. CAP-XX, Inc. was dissolved on 27 December 2006.

Note 23 Commitments

(a) Capital commitments

Capital expenditure contracted for at reporting date but not recognised as liabilities is as follows:

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
Property, plant and equipment				
Within one year	411	555	-	-
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	411	**555**	**-**	**-**

(b) Lease commitments: Group / company as lessee

The Group leases factory space with an office and warehouse under a non cancellable operating lease due to expire on 30 June 2011. The lease was entered into effective 1 July 2007.

The Group also leases office equipment and office space under cancellable operating leases. The Group is required to give 3 months notice for termination of these leases.

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:				
Within one year	287	310	-	-
Later than one year but not later than 5 years	923	89	-	-
Later than 5 years	-	-	-	-
	1,210	**399**	**-**	**-**

Note 24 Related party transactions and demerger

(a) Parent entity

Since 5 April 2006 the ultimate parent entity within the Group is CAP-XX Limited. Prior to 5 April 2006, the Company was a wholly owned subsidiary of CAP-XX Inc., a Delaware company incorporated in the United States of America. As part of the demerger process, all the issued shares of CAP-XX Limited were consolidated into a single Ordinary Share on 5 April 2006, which was subsequently transferred to Anthony Kongats, upon which the company issued further Ordinary Shares as described in note 18. CAP-XX Inc. has since been liquidated.

(b) Subsidiaries

Interests in subsidiaries are set out in note 25.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 20.

Notes to the financial statements 30 June 2007 continued

Note 24 Related party transactions and demerger (continued)

(d) Transactions with related parties and outstanding balances

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
The following transactions occurred with related parties other than key management personnel or entities related to them:				
Expenses				
Research and development services from subsidiaries	-	-	4,000,000	5,116,131
Interest expense from ultimate holding company	-	361,172	-	-
Management and sales support fees from other related parties	-	768,919	-	-
Revenue				
Sale of goods to other related party	-	890,607	-	-
Management fees to ultimate holding company	-	238,024	-	-
Licence fees from subsidiaries	-	-	350,250	321,873
Interest income from ultimate holding company	-	136,260	-	112,221
Interest income from other related parties	-	31,999	30,304	21,136
The amounts outstanding at the reporting date together with their movements during the year can be summarised as follows:				
Loans to subsidiaries				
Beginning of year	-	-	24,013,876	14,203,761
Net loans advanced / (paid)	-	-	11,230,861	4,959,504
Loan repayments received	-	-	(1,242,194)	-
Loan set-off (non-cash)	-	-	-	9,946,320
Revenue charges and credits received	-	-	350,250	321,873
Expense charges and costs incurred applied	-	-	(4,354,027)	(6,082,250)
Transfer from other related parties	-	-	-	664,668
Interest charged	-	-	30,304	-
Foreign exchange variance	-	-	(88,780)	-
	-	-	29,940,290	24,013,876
Provision for doubtful debts	-	-	(29,940,290)	(24,013,876)
End of year	-	-	-	-

Note 24 Related party transactions and demerger (continued)

(d) Transactions with related parties and outstanding balances (continued)

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
Amounts due to other related parties				
Beginning of year	-	400,786	-	458,804
Loan set-off (non-cash)	-	178,337	-	178,337
Revenue charges and credits received applied	-	890,607	-	-
Expense charges and costs incurred applied	-	(832,380)	-	(3,213)
Interest charged	-	31,999	-	21,136
Foreign exchange variance	-	34,325	-	9,604
Transfer to subsidiaries	-	(703,674)	-	(664,668)
	-	-	-	-
Provision for doubtful debts	-	-	-	-
End of year	-	-	-	-
Loans to previous ultimate holding company (CAP-XX, Inc)				
Beginning of year	-	4,355,871	-	3,520,570
Net loans advanced / (paid)	-	(15,616)	-	(14,066)
Convertible note exchange (non-cash)	-	8,983,123	-	8,983,123
Loan set-off (non-cash)	-	(11,031,373)	-	(10,124,657)
Share buy-back (non-cash)	-	(2,630,386)	-	(2,630,386)
Revenue charges and credits received applied	-	-	-	-
Expense charges and costs incurred applied	-	-	-	-
Interest charged	-	136,260	-	112,221
Foreign exchange variance	-	202,121	-	153,195
	-	-	-	-
Provision for doubtful debts	-	-	-	-
End of year	-	-	-	-
Loans from previous ultimate holding company (CAP-XX, Inc)				
Beginning of year	-	(8,845,996)	-	-
Net loans (advanced) / paid	-	(1,524,809)	-	-
Loan set-off (non-cash)	-	10,853,036	-	-
Revenue charges and credits received applied	-	-	-	-
Expense charges and costs incurred applied	-	449,393	-	-
Interest charged	-	(361,172)	-	-
Foreign exchange variance	-	(570,452)	-	-
	-	-	-	-
Provision for doubtful debts	-	-	-	-
End of year	-	-	-	-

Provisions raised for doubtful debts have been disclosed above. Expenses recognised in respect of bad or doubtful debts due from related parties are disclosed in note 7.

Note 24 Related party transactions and demerger (continued)

(e) Terms and conditions

There were no fixed terms for the repayment of amounts due / loans between entities and unless otherwise stated amounts due / loans were unsecured and repayable in cash. A loan of $10,853,036 (2006: $10,853,036) advanced by Parent to a subsidiary is secured by a fixed and floating charge over the assets of that subsidiary.

No interest is charged on amounts due / loans between entities within Australia. The average interest rate on amounts due / loans with overseas entities during the year was 4.4% (2006: 4%).

All other transactions within the Group were made on normal commercial terms and conditions and at market rates:

(f) Demerger and Initial Public Offering

The Board of Directors recommended and Stockholders of CAP-XX Inc (the "former parent entity") agreed in March 2006, that to fund the future growth of the CAP-XX Group, it was in the best interest of the Stockholders that CAP-XX Inc. effect an initial public offering (an "IPO") on the Alternate Investment Market ("AIM"), a part of the London Stock Exchange. It was deemed that the listing of ordinary shares of CAP-XX Limited, a then wholly owned subsidiary of CAP-XX, Inc. represented the best prospects for an IPO on AIM and on 5 April 2006 the demerger ("Demerger") of CAP-XX Limited from CAP-XX, Inc. was affected. The admission of CAP-XX Limited on AIM was completed on 20 April, 2006, whereon CAP-XX Limited issued 18,433,333 ordinary shares raising new capital of $37,050,901 (net of listing costs of $3,966,126). Included in the listing costs is $359,671 of share based payments, refer to note 28 for further details.

The following transactions, among others, were completed in connection with the Demerger and the IPO:

(i) CAP-XX Limited distributed ordinary shares and preferred shares to the existing stockholders of CAP-XX, Inc. in such numbers to replicate in CAP-XX Limited the equity ownership structure of the stockholders in CAP-XX, Inc which was also inclusive of a 3:1 share split;

(ii) holders of convertible notes ("Notes") in CAP-XX, Inc. exchanged their Notes for substantially similar notes of CAP-XX Limited;

(iii) holders of existing warrants of CAP-XX, Inc. exchanged their warrants for substantially similar warrants of CAP-XX Limited;

(iv) holders of options to purchase Common Stock ("Options") pursuant to the CAP-XX, Inc. 2001 Stock Option Exchange Plan and 2002 Stock Incentive Plan exchanged their Options for substantially similar options of CAP-XX Limited;

(v) CAP-XX, Inc. transferred all of its equity interests in CAP-XX USA, Inc., a wholly-owned subsidiary, to CAP-XX Limited;

(vi) a set-off of various inter-company loans between CAP-XX, Inc. and its wholly-owned subsidiaries was completed which included the buy-back (the "Buy-Back") by CAP-XX Limited of a certain number of ordinary shares held by CAP-XX, Inc. in connection with such set-off;

(vii) investment agreements of CAP-XX, Inc. relating to prior financings did not envisage the AIM listing with respect to the conversion rights of the Preferred Stock of CAP-XX, Inc. (the "Preferred Stock") to Common Stock of CAP-XX, Inc. (the "Common Stock"). Certain holders of Preferred Stock and Common Stock of CAP-XX, Inc., negotiated a conversion methodology for the preferred shares on IPO that generally followed the commercial intention of the investment agreements, with allowance for practical issues, and protection of parties in the event of market fluctuations and fairness. The Preferred Stock conversion on IPO of A preferred shares was 1:2.872397 and B preferred shares 1:3.828762. The protection of parties was supported by the grant of Call Options by the former preferred shareholders of CAP-XX Limited in favour of certain ordinary shareholders (inclusive of optionholders) of CAP-XX Limited which was subject to and conditional upon the completion of the IPO; [1]

(viii) on 20 January 2006, the Parent Entity changed its status from a "private" to "public" company and changed it's name from Energy Storage Systems Pty Limited to Energy Storage Systems Limited and subsequently on 5 April 2006 to CAP-XX Limited.

[1] The Call Option agreement has since been finalised and shares distributed. The redistribution did not affect any other shareholders' rights who were not parties to the Call Option agreement.

Note 25 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries and branch in accordance with the accounting policy described in note 1(c):

Name of entity	**Country of incorporation**	**Class of shares**	**Equity holding** *	
			30 June 2007	30June 2006
			%	%
CAP-XX (Australia) Pty Ltd	Australia	Ordinary	100	100
CAP-XX Research Pty Ltd	Australia	Ordinary	100	100
CAP-XX USA, Inc **	United States	Ordinary	100	100
CAP-XX (Australia) Pty Ltd (Taiwan Branch)	Taiwan			
CAP-XX (Australia) Pty Ltd (UK Branch)	United Kingdom			

* The proportion of ownership interest is equal to the proportion of voting power held.

** On 5 April 2006, the parent entity acquired 100% of the issued share capital of CAP-XX USA, Inc., the US sales operation of the CAP-XX Group, from CAP-XX, Inc. The acquired business did not contribute material revenues nor profits to the Group. If the acquisition had occurred on 1 July 2006, revenues and results would also not have resulted in a material change.

Details of the fair value of the assets and liabilities acquired and goodwill, on 5 April 2006, were as follows:

	$ ' 000
Trade receivables	230
Trade payables	(90)
Amounts due to related parties	(526)
Net identifiable assets acquired	(386)
Purchase consideration – cash	-
Goodwill	386

Given the acquired business had no track record of year on year profits, management performed an assessment of the recoverable amount of the goodwill based on historical results. This resulted in expensing the goodwill arising on acquisition directly in the income statement, of $386,000, in the year ended 30 June 2006.

Note 26 Events occurring after the balance sheet date

No significant events have occurred after balance sheet date which would have a material impact on the financial results of the Company.

Note 27 Reconciliation of profit after tax to net cash (outflow) from operating activities

	Consolidated		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
Net loss	(8,991)	(10,322)	(10,700)	(14,961)
Depreciation and amortisation	717	3,840	-	-
Profit on sale of plant and equipment	-	(26)	-	-
Non-cash employee benefit expense – share based payments	617	56	617	56
Accrued interest on convertible notes	-	510	-	510
Provision for non recovery of related party loans	-	(401)	5,926	9,351
Write-off goodwill on consolidation	-	386	-	-
Net unrealised exchange loss/(gains)	3	(61)	-	(580)
Changes in assets and liabilities:				
(Increase)/decrease in receivables	(108)	(484)	(39)	-
(Increase) in inventories	(570)	11	-	-
(Increase)/decrease in amounts with related parties	-	(32)	4,062	5,620
(Increase)/decrease in other assets	33	(25)	39	37
Increase in provisions	69	57	-	-
Increase/(decrease) in payables	552	112	100	41
Net cash (outflow) from operating activities	**(7,678)**	**(6,379)**	**5**	**74**

Note 28 Share-based payments

(a) 2006 Share Option Exchange

The establishment of the 2006 Share Option Exchange (the "2006 Exchange") was approved by the Company's Board of Directors with effect from on 5 April 2006. The 2006 Exchange provides for the issuance of stock options for the purchase of ordinary shares of the Company's in exchange for the surrender of options previously granted but unexercised in CAP-XX, Inc. The 2006 Exchange provides for the grant of share options for the purchase of shares of the Company's ordinary shares by officers, employees, independent contractors, consultants, advisers and directors of the Company and/or any of its subsidiaries. The Board is responsible for administration of the 2006 Exchange.

Note 28 Share-based payments (continued)

Set out below are summaries of options granted under the Exchange:

Grant Date	Expiry date	Exercise price [2]	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2007								
28 August 2001	31 May 2008	$2.96	28,497	-	-	-	28,497	28,497
28 August 2001	29 January 2009	$11.84	13,500	-	-	-	13,500	13,500
28 August 2001	10 October 2009	$8.88	510	-	-	-	510	510
1 November 2002	30 September 2012	$15.64	48,003	-	-	(3,501)	44,502	44,502
1 April 2004	31 May 2008	$2.96	9,999	-	-	-	9,999	9,999
1 April 2004	29 January 2009	$11.84	1,509	-	-	-	1,509	1,509
1 April 2004	30 September 2012	$4.19	19,500	-	-	(15,000)	4,500	4,500
1 April 2004	30 September 2012	$15.64	14,502	-	-	-	14,502	14,338
30 June 2004	31 May 2014	$0.47	30,000	-	-	-	30,000	30,000
26 August 2004	25 July 2014	$0.23	48,000	-	-	-	48,000	48,000
21 March 2005	20 February 2015	$0.23	48,000	-	-	-	48,000	48,000
1 July 2005	31 May 2015	$0.47	1,411,437	-	(285,548)	(50,778)	1,075,111	995,675
1 July 2005	31 May 2015	$15.64	20,511	-	-	(3,003)	17,508	16,679
			1,693,968	**-**	**(285,548)**	**(72,282)**	**1,336,138**	**1,255,709**
Weighted Average Exercise Price			**$1.40**	**$ -**	**$0.47**	**$2.61**	**$1.54**	**$1.59**

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2006								
28 August 2001	31 May 2008	$2.96	9,499	18,998	-	-	28,497	28,497
28 August 2001	29 January 2009	$11.84	4,500	9,000	-	-	13,500	13,500
28 August 2001	10 October 2009	$8.88	170	340	-	-	510	510
1 November 2002	30 September 2012	$15.64	16,000	32,003	-	-	48,003	48,003
1 April 2004	31 May 2008	$2.96	3,333	6,666	-	-	9,999	9,999
1 April 2004	29 January 2009	$11.84	503	1,006	-	-	1,509	1,509
1 April 2004	30 September 2012	$4.19	6,500	13,000	-	-	19,500	19,408
1 April 2004	30 September 2012	$15.64	4,835	9,667	-	-	14,502	13,713
30 June 2004	31 May 2014	$0.47	10,000	20,000	-	-	30,000	22,500
26 August 2004	25 July 2014	$0.23	16,000	32,000	-	-	48,000	48,000
21 March 2005	20 February 2015	$0.23	16,000	32,000	-	-	48,000	48,000
1 July 2005	31 May 2015	$0.47	-	1,500,117	(88,680) [3]	-	1,411,437	1,018,559
1 July 2005	31 May 2015	$15.64	-	20,511	-	-	20,511	18,341
			87,340	**1,695,308**	**(88,680)**	**-**	**1,693,968**	**1,290,539**
Weighted Average Exercise Price			**$5.31**	**$1.16**	**$0.47**	**$ -**	**$1.40**	**$1.66**

[2] As detailed in note 24(f) on 5 April 2006 as part of Demerger existing share capital was subject to a 3:1 split resulting in the issue of 1,179,391 additional share options over ordinary share and the adjustment of the exercise price being the exercise price per ordinary share prior to Demerger divided by the split factor of 3.

[3] During the year ended 30 June 2006, 75,118 share options were exercised in CAP-XX Limited with the balance exercised in CAP-XX, Inc. prior to Demerger.

Notes to the financial statements 30 June 2007 continued

Note 28 Share-based payments (continued)

Except for the adjustment to the exercise price and number of ordinary shares subject to the share option, the share options are governed by their original terms and conditions and will continue to vest pursuant to the same vesting schedule.

Apart from the 3:1 split, share options of 500,039 (after 3:1 split 1,500,117 share options with exercise price $0.47) and 6,837 (after 3:1 split 20,511 share options with exercise price of $15.64) were issued on 1 July 2005. 72,282 share options were forfeited during the year ended 30 June 2007 (2006: Nil).

No share options have expired during the years covered by the above tables. The weighted average remaining contractual life of share options outstanding at the end of the period was 7.5 years (2006: 8.7 years).

(b) 2006 Employee Share Option Plan

On 12 April 2006 the Board approved the 2006 Employee Share Option Plan (the "2006 Plan"), which provides for the grant of share options for the purchase of ordinary shares of the Company by officers, employees, consultants, advisors and directors of the Company or a related body corporate. The Board is responsible for administration of the 2006 Plan. The Board determines the term of each option, the option exercise price, and the number of shares for which each option is granted and the rate at which each option is exercisable. Unless otherwise determined by the Board an offer of Option must not provide for an exercise price that is less than the volume weighted average sale price of a share traded on AIM over a defined period.

Set out below is a summary of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity - 2007								
20 April 2006	22 February 2011	$1.40	60,000	-	-	-	60,000	-
19 September 2006	19 September 2016	$2.38	-	1,655,000	-	(122,500)	1,532,500	37,500
15 November 2006	16 November 2016	$1.73	-	75,000	-	-	75,000	-
8 May 2007	8 May 2017	$2.60	-	30,000	-	-	30,000	30,000
4 June 2007	4 June 2017	**£1.09**	-	150,000	-	-	150,000	-
			60,000	**1,910,000**	**-**	**(122,500)**	**1,847,500**	**67,500**
Weighted Average Exercise Price			**$1.40**	**$2.37**	**-**	**2.38**	**$2.34**	**$2.47**

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2006								
20 April 2006	22 February 2011	$1.40	-	60,000	-	-	60,000	-
			-	60,000	-	-	60,000	-
Weighted Average Exercise Price			**$ -**	**$1.40**	**$ -**	**$ -**	**$1.40**	**$ -**

The Stock Options are governed by their original terms and conditions and will continue to vest pursuant to the same vesting schedule.

122,500 share options were forfeited during the year ended 30 June 2007 (2006: Nil).

No share options expired during the years covered by the above tables.

The weighted average remaining contractual life of share options outstanding at the end of the period was 8.8 years (2006: 4.8 years).

Note 28 Share-based payments (continued)

(c) Collins Stewart Limited Share Option Deed

In consideration of covenants and obligations that Collins Stewart Limited ("Collins Stewart") agreed under the Company AIM Placing Agreement and its services provided thereunder, the Board on 12 April 2006 approved the Collins Stewart Limited Share Option Deed (the "CS Deed"). The CS Deed provided for the grant of share options of up to 1% of the issued ordinary share capital of the Company on a fully diluted basis immediately following admission to AIM, conditional upon admission occurring no later than 4 May 2006. As detailed in note 24(f) admission was completed on 20 April 2006 whereon the Company issued the below detailed share options to Collins Stewart. The options were fully vested at date of grant and can be exercised over a 3 year period through to 20 April 2009, with the option exercise price being 93 pence (A$2.23).

Set out below is a summary of options granted under the deed:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
		GBP	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2007								
20 April 2006	20 April 2009	**£0.93**	503,350	-	-	-	503,350	503,350
			503,350	-	-	-	503,350	503,350
Weighted Average Exercise Price			£0.93	-	-	-	£0.93	£0.93

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
		GBP	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2006								
20 April 2006	20 April 2009	**£0.93**	-	503,350	-	-	503,350	503,350
			-	503,350	-	-	503,350	503,350
Weighted Average Exercise Price				£0.93			£0.93	£0.93

The Stock Options are governed by their original terms and conditions.

No share options were forfeited during the year covered by the above tables.

No share options have expired during the year covered by the above tables.

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.8 years (2006: 2.8 years).

Note 28 Share-based payments (continued)

Fair value of options granted

The assessed fair value at grant date of options granted, during the year ended 30 June 2007, under the 2006 Plan were A$1.55 on 19 September 2006, A$1.13 on 15 November 2006, A$1.46 on 8 May 2007 and A$1.69 on 4 June 2007 per option, respectively. The assessed fair value at grant date of options granted, during the year ended 30 June 2006, under the 2006 Plan and the CS Deed were A$1.49 and A$0.72 per option, respectively. The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted included:

(a) options are granted for no consideration, have a:

- 3 year life and fully vested on the date of grant (CS Deed);
- 5 year life and will vest on satisfaction of certain performance criteria (2006 Plan);
- 10 year life and 25% vest 12 months after the Vesting Commencement Date, and 1/48 of Total Option shall vest on each monthly anniversary of the Vesting Commencement Date thereafter;
- specific vesting criteria in some minor instances.

(b) exercise price: refer tables above

(c) grant date: refer tables above

(d) expiry date: refer tables above

(e) share price at grant date

(f) expected price volatility of the company's shares: 60% (2006: 60%)

(g) no expected dividend yield

(h) risk free interest rate: 5.5% (2006: 5.5%)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Options issued under 2006 Share Option Exchange	53	53	53	53
Options issued under 2006 Employee Share Option Plan	564	3	564	3
	617	56	617	56

Note 28 Share-based payments (continued)

Total expenses arising from share-based payment transactions recognised during the period as part of cost of issue on new capital were as follows:

	Consolidated		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Options issued under Collins Stewart Limited Share Option Deed	-	360	-	360

Note 29 Economic dependency

The Group is highly dependent upon a small number of customers and potential customers. Alternative sources of revenue are being sought to reduce future dependency on any particular entity.

The Group is also highly dependent upon a Malaysian contract manufacturer to fullfil a large proportion of sales orders. Additional sources of supply are being sought.

Note 30 Earnings per share

Earnings per share for (loss) attributable to the ordinary equity holders of the company

	Consolidated	
	2007	**2006**
	Cents	**Cents**
(a) Basic earnings per share		
(Loss) attributable to the ordinary equity holders of the company	(18.5)	(31.1)
(b) Diluted earnings per share		
(Loss) attributable to the ordinary equity holders of the company	(18.5)	(31.1)

	Consolidated	
	2007	**2006**
	Number	**Number**
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	48,731,654	33,204,782
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	48,731,654	33,204,782

Options are considered to be potential ordinary shares. The options are not included in the calculation of diluted earnings per share because they are antidilutive. These options could potentially dilute basic earnings per share in the future.

CAP-XX Limited
Directors' declaration
30 June 2007

In the directors' opinion:

(a) the financial statements and notes set out on pages 18 to 58 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and mandatory professional reporting requirements; and

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer in the form contained in section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.

Michael Quinn
Director

Sydney
28 September 2007

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Independent auditor's report
to the members of CAP-XX Limited

Report on the financial report

We have audited the accompanying financial report of CAP-XX Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both CAP-XX Limited and the CAP-XX Limited Group. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit

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also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of CAP-XX Limited (the company) for the financial year ended 30 June 2007 included on the CAP-XX Limited web site. The company's directors are responsible for the integrity of the CAP-XX Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of CAP-XX Limited is in accordance with the *Corporation Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

This opinion must be read in conjunction with the rest of our audit report.

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Emphasis of Matter

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification of our opinion, we draw attention to Note 1 in the financial statements which indicates that the company incurred an operating loss and net cash outflows during the year ended 30 June 2007. This condition, along with other matters as set forth in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

PricewaterhouseCoopers

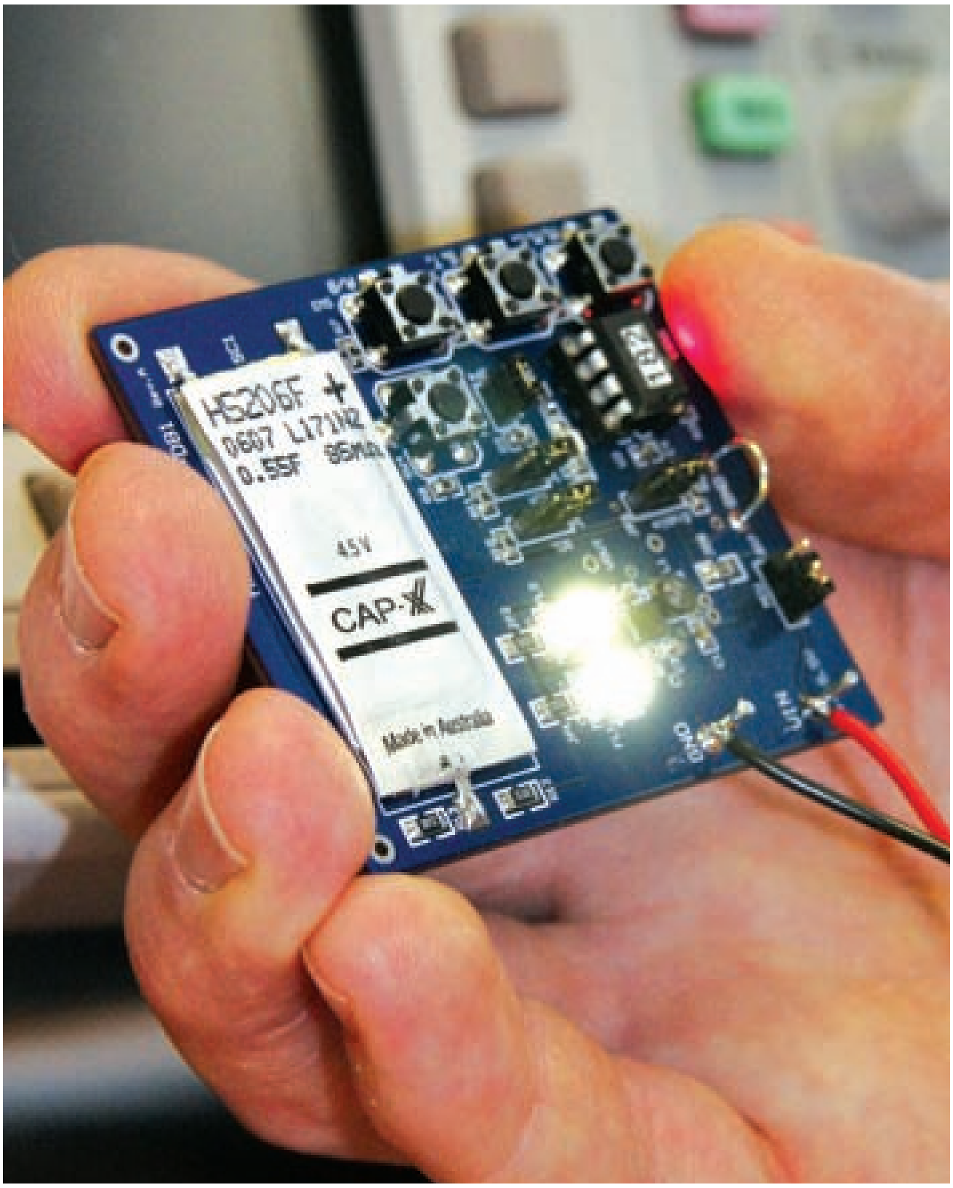
PricewaterhouseCoopers

RL Wilkie
Partner

Sydney
28 September 2007

Leading brand mobile phones without a CAP-XX supercapacitor

Leading brand mobile phone with a CAP-XX supercapacitor



LED* Flash Driver demonstration board for mobile phone makers.
Leading integrated circuit (IC) manufacturers have realised the value that CAP-XX supercapacitors offer to the mobile phone market. With our help, they have developed management ICs and evaluation boards enabling a low cost, high brightness camera phone flash solution.
* Light Emitting Diode

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